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Livestock and Products

Good meat export opportunities

2004

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Report Highlights:

For the first time for the last three years, the Government of Bulgaria is likely to liberalize meat import regime and to respond positively to the meat processing industry request. Galloping meat prices, threat of bankruptcy for many meat processors, their inability to meet the EU sanitary and safety requirements deadline (2005), and upcoming political elections in 2005, will likely open the meat market for non-EU origin meats. The U.S. opportunities look promising especially in the first six months of 2005 for exports of pork, beef offal and turkey, all destined for processing.

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Summary

In 2004, the meat processing industry has gone through a difficult period squeezed between introduction of stringent EU hygiene/safety/ regulations requiring significant investment; much higher prices of raw materials, especially pork; and continuing pressure by the retail market.

In the second half of 2004, lack of sufficient local meat supply for processing led to higher prices and imports. Meat imports (pork, beef, poultry) in 2004 (January - October) were 81,200 MT which is 26 percent higher than in the same period in 2003. Imports of pork/pork products only increased 16 percent in 2004 (Jan.-Oct.) to 27,800 MT vs. 24,000 MT for the same period in 2003. Imports of pork fat alone in 2004 (Jan.-Oct.) were 80 percent higher at 11,000 MT against 6,100 MT in 2003. For the first time, in October 2004, Bulgaria imported live pigs for slaughter from Belgium at competitive prices.

Current difficulties with the expensive meat supply put in danger the upgrading of the meat industry which has to fully meet the EU-food safety regulations by end-2005. At the same time, the EU investment subsidy fund SAPARD has been fully used and the meat industry has to rely on profits from sales on the local market for all capital and operational needs (meat exports are not possible at this time due to veterinary restrictions).

The Association of Meat Processors (AMP) requested from the Government of Bulgaria (GOB) to liberalize trade regime and to introduce lower import tariffs or reduced duty TRQs on pork, beef and turkey, in order to provide stable raw material supply at a lower cost. Galloping meat prices, upcoming political elections in mid-2005, and the threat to see most meat processors in bankruptcy, all are likely to result in favorable GOB decision towards meat imports in 2005.

The U.S. opportunities are mainly in exports of frozen pork cuts for processing to be supplied in the period December 2004 – July 2005. Currently, the meat industry is hopeful that between 3,000 MT and 10,000 MT of pork TRQ can be open in this period at a lower duty of 100-150 Euro/MT (vs. 622 Euro/MT current tariff). Other opportunities exist for exports of beef tripe (likely zero tariff in 2005), and for frozen boneless turkey cuts (eventual lower duty or TRQ in 2005).

Demand

In 2004, demand for fresh meat and processed meat products both in the retail and food service sectors continued to grow. The gradual and stable growth in consumer income as well as continued growth in the number of tourists (18 percent for January-August, total over 3.0 million people) are the major factors in favor of higher demand.

On the retail market, there has been a significant recent expansion of 2 major local chains, a new foreign retail company entered the country in October (German "HIT"), and another one is expected to start operations in early-2005. In the food service sector, the number of hotels, restaurants and other food outlets increased by 8-10 percent (experts' estimate for the 2004 annual growth). This trend is forecast to continue for the rest of 2004 and in 2005.

Demand for both higher quantity and better quality meat was difficult to be met by the meat processors, mainly due to galloping prices of raw meat for processing, especially pork. Traditionally, pork is the major type of meat for processing, followed by beef and turkey.

Currently, local market is the only sales opportunity for the meat processors. Swine in Bulgaria is still vaccinated against classical swine fever (CSF) which makes exports to the EU

not possible. Only four meat processing facilities are approved to export to the EU if they use imported pork but their share and role on the meat market is not significant. Although vaccination will be gradually terminated in 2005/2006, until a full elimination of vaccination practices, those facilities will not work with Bulgarian pork. Moreover, the introduction of non-vaccination practices is expected to lead to higher risk of new CSF outbreaks, thus the local meat supply may decline in this transitional period, which in turn will increase demand for imported pork.

Supply

The local pork production industry is not currently able to offer the type of meat and in volume which is in demand by the processors.

Last year (2003) was difficult for the pork farms due to the grain deficit, and due to restructuring of farms with an introduction of new breeds with higher lean meat content.

Ex-farm prices in 2003 were initially low due to collapse of smaller/medium size farms and over slaughtering (see data below about higher meat production in 2003) but has gradually increased in 2004 and started to gallop since May 2004. Distress slaughtering in 2003 led to lower stocks in 2004, especially for sows, and further difficulties with the reproduction and restoration of animal numbers. Since June/July 2004, abundant grain crop/lower feed prices stimulated keeping of pigs for fattening, and less slaughter. As a result, meat supply became short and expensive.

In the third quarter in 2004, prices of live pigs (80 to 100 kilos weight) increased by 20% to reach 205 leva/pig (\$136.66). The prices of live pigs (above 100 kilos weight) increased 14 percent and reached 232 leva/pig (\$155). Only in October, the average increase in prices of processed meat products was 20 percent. In November, the increase in prices continued.

According to the Association of Pork Producers (APP), November pork prices in LWE are between 2.50 leva/kilo (\$1.66) to 2.80 leva/kilo (\$1.86). These prices are about 100 percent higher compared to the same period in 2003 and 50 percent higher compared to January/February 2004. The prices in LWE for sows also increased from 1.52 leva/kilo (\$1.0/kilo) in August to 1.92 leva/kilo (\$1.28/kilo) in October. According to AMP data, in October, the average EU prices for pork, CWE, were 1.2-1.40 Euro/kilo while in Bulgaria, these prices were double: 2.50 Euro/kilo. The APP considers these prices as a maximum level and estimates that the prices will start to fall down by the spring of 2005 since pork farms have already put 20 percent more pigs for fattening in the second half of 2004.

According to AMP, local pork production is highly protected and is not prepared to meet the competition from the EU countries by 2007 when Bulgaria will likely join the EU. The protectionist trade policy (very high duties) over the last 5-7 years did not lead to significant improvement in this sector, and the meat processing industry had to rely on imports. In 2003, the processing industry sourced 41% of its pork raw material from imports; and in 2004, this percent is estimated to be much higher. Overall, 57 percent (2003) of meat used by the meat processing industry came from imports, mainly due to lack of domestic turkey and beef production.

Commercial Meat Supply

The data shows meat production in 2003, which although higher than in the previous year, did not meet the local processing industry demand. In 2004, these figures are estimated to be much lower, so the demand for pork and other red meats escalated.

In general, commercial meat supply is limited due to still large on-farm sector. In 2003, total 196 red meat slaughtering houses were functioning of which 46 were shut down in early 2004 for sanitary reasons. This number of slaughterhouses is about the same compared to 2001/2002, however, the amount of meat produced in 2003 was 24 percent more and reached 70,000 MT. Higher production was a result of increased number of slaughtered livestock from all types (27%). The highest increase was registered with pigs, 32% (total 745,000 pigs); and sheep, 22 percent; followed by cattle, 14%. This led to higher meat production, 26% for pork meat (total 52,000 MT CWE); 20% for sheep/lamb; and 14% for beef.

Pork was produced at 55 slaughter houses in 2003 vs. 37 in 2002, or total 28% of total operating slaughter houses. Still only 2.6 percent of total slaughter pigs are slaughtered at EU approved facilities compared to 88% for sheep/lamb which are traditionally exported to the EU. While the average live weight for slaughter in 2003 did not change much compared to 2002 for cattle (-0.2%); for pigs, the average live weight was lower (-2.4% or the registered average weight of 100 LWE kilos/pig). The rate of LWE to CWE for pigs was 0.69, also 5% lower than in 2002 when this index was 0.73. Therefore, a 32% increase in the number of slaughter pigs resulted in lower increase in pork production, 26%.

Thus, commercially produced pork (slaughtered for the market) in 2003 was 52,000 MT (41,000 MT in 2002) of which 15,000 MT were so called semi-fat meats and 3,000 MT fat meats which is a very small quantity for the needs of the processing industry. The bulk of this production is marketed as fresh meat for direct consumption at retail and food service outlets.

Non commercial pork supply

The meat produced on-farm does not enter the market chain. In deficit years like 2004 when pork prices are high, the share of pork produced and consumed in this sub-sector increases which makes the meat deficit even more serious.

Pork meat produced outside the slaughter houses remain relatively high, although there was a declining trend in 2003. According to a recent MinAg survey, the number of pigs slaughter on-farms in 2003 was 27% of total slaughter pigs compared to 31% in 2002. Still the number of pigs slaughter on-farms was 6.6 % higher in 2003 (total 274,000 pigs) compared to 2002. The average LWE was 100.5 kilos which was 12.6% lower compared to 2002. Thus, the estimated pork production on-farm was 27,500 MT LWE and 19,000 MT CWE, or total (commercial and on-farm) 2003 pork production was estimated by the MinAg at 71,000 MT.

For beef, on-farm production was 41,000 MT LWE and 20,000 MT CWE in 2003. While for pork, commercial production at slaughter houses is 73% out of total vs. 27% for on-farm supply; for beef the trend is just the opposite -- the index is 31% produced at slaughter houses vs. 69% on-farm.

Meat processing industry needs

According to the AMP, the local meat processing industry consumes about 90,000 MT of pork. In 2003, the industry used 72,000 MT-75,000 MT of pork of which 52,000 MT locally produced (commercial supply) and 20,000 MT imported pork. Other pork products were pork fat, around 8,000 MT, all from imports; and pork offal, 11,000 MT, of which 2,000 MT locally produced and 9,000 MT imported. Thus, the industry consumed 37,000 MT imported pork and pork products in 2003.

The estimates are that in 2004, the need is higher and use of imported pork product may reach 40,000 MT-45,000 MT.

Meat Consumption by the Bulgarian Meat Industry, 2003, in MT			
Type of meat	Demand/Need	Local supply	Imports
Pork meat	72,247	51,706	20,541
Pork fat	8,036	No data available	8,036
Pork offal	10,111	1,200	8,911
Total pork products	90,394	52,906	37,488
Beef	31,518	9,036	22,482
Turkey	23,036	160	22,866
Total Meat	144,938	62,102	82,836
Source: AMP estimates			

Trade

Meat imports in 2004 were not able to meet the demand due to already high meat prices in the EU (about 20 percent higher in October compared to January) as a major exporter of meat to Bulgaria; and exorbitant import duties for pork (40 percent min 622 Euro/MT).

Due to high import duties, the bulk of pork is usually imported via tariff rate quotas (TRQ). The only such quota, however, in 2004 was the duty free TRQ for EU-origin pork for 9,000 MT opened on July 1. The quota was completely used for 16 days.

According to the latest trade figures, in 2004 (January-October), pork imports were 27,800 MT as follows: 13,500 MT of pork meat; 3,330 MT of smoked/salted pork; and 11,000 MT of pork fat. In 2003 Bulgaria imported 28,600 MT of pork products of which 20,600 MT pork (18,900 MT of frozen pork meat, and 1,700 MT of smoked/salted pork) and 8,036 MT of pork fat. These figures do not include pork offal (see the table above).

Trade Regime in 2005

Since early September 2004, the AMP has started to actively lobby in favor of more liberal pork import regime. The type of pork products for which the AMP has requested a more liberal trade regime are the major raw materials for production of perishable and semi-perishable meat products as well for production of ground meat/and products. This type of processed meat products (various sausages etc.) account for 60-65 percent of total processed meat market and enjoy stable and high consumer demand. According to the locally used culinary formulas, this type of meat products need 50-70 percent semi-fat pork meat.

In mid-2004, Bulgaria closed a new round in trade liberalization with the EU. The new agreement has not been ratified by the Bulgarian Parliament and is not enforced yet. Ratification is expected to be done by end-2004 or later and to be effective by February/March 2005. This new agreement was taken into consideration when the AMP requested a change in 2005 trade regime.

The major elements of this new EU agreement for the meat trade are:

- An increased EU-origin pork TRQ (double zero quota) by 550 MT. Thus, the new TRQ from July 1, 2005 will start from 10,050 MT. This TRQ will be increased by 500 MT every year. The GOB has the right to split this quota in equal amounts per a quarter.

The unused quantity from the previous quarter can be transferred to the next quarter allocation;

- there is a new TRQ for pork fat, 7,000 MT, open from July 1, 2005, no annual increase. The industry requested this TRQ to be 11,000 MT but this proposal was not accepted;
- new TRQ for salted pork/pork offal (HS#0210), 100 MT, no annual increase;
- Beef: TRQ for 8,149 MT at 8.5 percent import duty (HS#0202 20 30, 0202 20 50). This is an old quota which used to exist to date;
- A new TRQ for 2,500 MT of beef, duty free, is introduced for HS#0201, 0202, no annual increase.

In addition to the above TRQs, the AMP requested the following trade regime changes:

- A. to introduce a TRQ (all origins including the U.S.) for 3,500 MT of pork at a reduced duty (from zero to 150 Euro/MT) until the end of 2004;
- B. to introduce a TRQ (all origins including the U.S.) for 10,000 MT-15,000 MT of pork at a reduced duty (from zero to 150 Euro/MT), for the first six months of 2005.

In both cases, the request was made for frozen boneless pork cuts under HS#0203 29 55. Current import duty is 40% min. 622 Euro/MT. In 2003, imports under this tariff number were 15,023 MT (\$19.0 million). In 2004, January-August, these imports were 11,356 MT (\$15.0 million). Imports are coming from the EU, U.S., Canada and Brazil.

- C. to prolong the validity of current import regimes (autonomous TRQs) for:

pork liver (HS#0206 41 00 9 unlimited quantity at 10% import duty);
pork fat (HS#0209 00 110, duty free, unlimited quantity);
pork offal (HS#0206 49 20 9 unlimited quantity at a duty of 10% min. 70 Euro/MT);

Imports of pork liver in 2003 were 1,570 MT; in 2004 (January-August), it was 1,860 MT, mainly from the EU and Canada, with the expectation to reach annual amount of 1,600 MT.

Imports of pork offal for processing in 2003 were 7,000 MT (\$3.0 million); in 2004 (January-August), it was 5,250 MT, with an origin EU and Canada. Expected 2004 annual imports are 8,000 MT (\$4.0 million).

Imports of pork fat in 2003 were 8,000 MT (\$4.0 million); in 2004 (January-October) it was 11,000 MT (\$6.0 million). Almost all imported pork fat originated from the EU. The demand for this product is constantly high, especially with even higher pork meat prices. Most recently (October), local prices reached 3.20 leva/kilo (\$2.12/kilo) or very close to the EU prices (1.60-1.70 Euro/kilo). The regular duty on pork fat is 40%, so practically all imports are executed via the TRQ. Currently, the meat industry is concerned that due to the new EU trade agreement, current autonomous TRQ is to be canceled starting January 2005. The new EU agreement, however, will be likely effective by March 2005 which means that importers have to pay 40% duty in the period January-March. Experts think that due to this high duty, pork fat imports will simply stop.

- D. to introduce TRQ for 12,000 MT duty free imports of turkey (frozen boneless cuts, HS#0207 27 10 0) for the whole 2005.

Bulgaria needs about 20,000 MT of turkey meat for processing annually. Local production is practically not existent (about 160 MT in 2003). Total turkey imports in 2003 were 22,886 MT (about 70 percent of total poultry imports) of which imports under the requested category (HS# 0207 27 10 0) were 13,305 MT (\$6.2 million). In 2004 (Jan-August), these imports were about 9,000 MT, coming mainly from U.S., Brazil, Canada and the EU. Turkey meat is in high demand since meat processors substitute often beef and partly pork with turkey if the market is favorable price-wise. In addition, processed turkey products are increasingly preferred by local consumers due to its high nutritional and health value.

Currently, import duty on turkey is 25% min. 100 Euro/MT which is considered high in a country which has no such production. The only TRQ for turkey meat is for EU origin, 1,000 MT for all types of poultry (HS#0207). This year, the quota was used for one day, all for chicken. In the new trade agreement with the EU, this quota is increased by 900 MT to 1,900 MT (no annual increases).

- E. The category HS#0504, guts/stomachs/intestines from animals, currently under 10% import duty, to be split in two sub-categories HS#0504 10 00 0 – poultry intestines (incl. gizzards) with the same duty 10%; and HS#0504 90 00 0-other; for which the duty to be zero.

The tariff under HS#0504 was increased in 2003 (Decree #127 of June 10, 2003) from 5% to 10% which is the WTO bound rate. This was made in an attempt to prevent poultry smuggling since illegal importers were using this tariff category to import chicken leg quarters. However, this change negatively affected the meat processing industry which is a significant consumer of guts and stomachs from pigs/cattle. The major product groups in this category are guts for production of perishable sausages; and beef tripe which is used for direct human consumption, and for processing as in most Balkan countries. In 2003, imports under this category were 4,700 MT; in 2004 (Jan-August), it was 3,400 MT, mainly from the U.S. and Brazil, with expected annual imports at 4,000 MT.

The United States are the largest traditional supplier of beef tripe to Bulgaria and can take advantage of this trade. Currently, the EU-origin beef tripe is imported at zero tariff but the trade is very small. Other major competitor is Brazil.

U.S. opportunities

The upcoming change in the trade regime, although not officially published, are likely to have a very positive effect on meat trade and to provide opportunities for U.S. suppliers in several areas: frozen boneless pork cuts and trimmings for processing; beef tripe; and frozen boneless turkey cuts for processing.

It is assumed that these changes will be one of the last trade opportunities for the U.S. suppliers before the Bulgarian accession in the EU when the EU veterinary requirements will be introduced. Currently, Bulgaria recognizes bilaterally developed bilingual U.S.-Bulgarian FSIS 9060-5 export certificates for red and poultry meat and there are no veterinary restrictions applying to the United States.